

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137**

**FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION**

YEAR ENDED JUNE 30, 2018

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CHARTER SCHOOL NO. 4137
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INTRODUCTORY SECTION

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 SCHOOL BOARD AND ADMINISTRATION
 JUNE 30, 2018**

SCHOOL BOARD

NAME	TERM ON BOARD EXPIRES	BOARD POSITION
Stacie Woods *	06/18	Board Chair
Amy Jensen **	06/20	Board Chair
Donald Frink	06/19	Treasurer
William Anderson	06/18	Secretary
Amy Bergquist-Savage	06/20	Member
Franco Fanucci	06/18	Member
Cathy Auguston	06/19	Member

* - resigned 2/21/2018

** - beginning 3/21/2018

SRM BUILDING COMPANY

NAME	TERM ON BOARD EXPIRES	BOARD POSITION
Matthew Lindberg	06/18	Board Chair
Rick Freese	08/18	Secretary
Andy Moll	06/18	Treasurer
Dan Cotton	04/20	Member

ADMINISTRATION

Katie Curtis
 Beth Brockman

School Director
 Operations Coordinator

FINANCIAL SECTION

INDEPENDENT AUDITORS' REPORT

Members of the Board of Education
Charter School No. 4137
Swan River Montessori Charter School
Monticello, Minnesota

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Swan River Montessori Charter School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Swan River Montessori Charter School's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Swan River Montessori Charter School as of June 30, 2018, and the respective changes in financial position and the respective budgetary comparison for the General Fund, the Food Service Fund, and the Community Service Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Prior Year Information

We have previously audited Swan River Montessori Charter School's 2017 financial statements of the governmental activities and each major fund, and we expressed an unmodified opinion on those audited financial statements in our report dated October 24, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, TRA Schedule of the School's Proportionate Share of the Net Pension Liability, TRA Schedule of School Contributions, GERS Schedule of the School's Proportionate Share of the Net Pension Liability, and GERS Schedule of School Contributions as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Swan River Montessori Charter School's basic financial statements. The Uniform Financial Accounting and Reporting Standards Compliance Table is presented for purposes of additional analysis and is not a required part of the basic financial statements.

Members of the Board of Education
Charter School No. 4137
Swan River Montessori Charter School

Supplementary Information (Continued)

The Uniform Financial Accounting and Reporting Standards Compliance Table is the responsibility of management and was derived from and relate directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated August 31, 2018, on our consideration of Swan River Montessori Charter School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Swan River Montessori Charter School's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Swan River Montessori Charter School's internal control over financial reporting and compliance.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 31, 2018

REQUIRED SUPPLEMENTARY INFORMATION

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

This section of Swan River Montessori Charter School – Charter School No. 4137's (the School) annual financial report presents our discussion and analysis of the School's financial performance during the fiscal year that ended on June 30, 2018. Please read it in conjunction with the School's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Key financial highlights for the 2017-2018 fiscal year include the following:

- Total General Fund revenues were \$1,813,881 as compared to \$1,861,365 of expenditures.
- Total net position of governmental activities at June 30, 2018 was \$(1,480,692).
- The total fund balance of the General Fund decreased from \$456,721 at June 30, 2017 to \$409,237 at June 30, 2018.

OVERVIEW OF THE FINANCIAL STATEMENTS

The financial section of the annual report consists of four parts – Independent Auditors' Report, required supplementary information which includes the management's discussion and analysis (this section), the basic financial statements, and supplementary information. The basic financial statements include two kinds of statements that present different views of the School:

- The first two statements are *School-wide financial statements* that provide both *short-term* and *long-term* information about the School's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the School, reporting the School's operations in *more detail* than the School-wide statements.
- The *governmental funds statements* tell how basic services such as regular and special education were financed in the *short term* as well as what remains for future spending.

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

School-Wide Statements

The School-wide statements report information about the School as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes *all* of the School's assets, deferred outflows of resources, liabilities, and deferred inflows of resources. All of the current year's revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two School-wide statements report the School's *net position* and how they have changed. Net position – the difference between the School's assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one way to measure the School's financial health or *position*.

- Over time, increases or decreases in the School's net position are an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the School you need to consider additional nonfinancial factors such as changes in the School's creditworthiness and the condition of school buildings and other facilities.

In the School-wide financial statements the School's activities are shown in one category:

- *Governmental Activities* – Most of the School's basic services are included here, such as regular and special education, administration. State aid finances most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the School's *funds* – focusing on its most significant or “major” funds – not the School as a whole. Funds are accounting devices the School uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by debt covenants.
- The School may establish other funds to control and manage money for a blended component unit such as the Swan River Montessori Charter School Building Company.

The School has the following fund type:

- *Governmental Funds* – Most of the School's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps to determine whether there are more or fewer financial resources that can be spent in the near future to finance the School's programs. Because this information does not encompass the additional long-term focus of the School-wide statements, we provide additional information at the bottom of the governmental funds statements to explain the relationship (or differences) between them.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

FINANCIAL ANALYSIS OF THE SCHOOL AS A WHOLE

Net Position

The School's *combined* net position was \$(1,480,692) and \$(766,821) on June 30, 2018 and 2017, respectively (see Table A-1).

**Table A-1
The School's Net Position**

	Governmental Activities as of June 30,		Percentage Change
	2018	2017	
Current and Other Assets	\$ 735,511	\$ 803,191	(8.43)%
Capital Assets	1,920,136	2,050,088	(6.34)
Total Assets	<u>2,655,647</u>	<u>2,853,279</u>	(6.93)
Deferred Outflows of Resources	1,798,731	2,140,925	(15.98)
Current Liabilities	233,260	204,553	14.03
Long-Term Liabilities	5,190,162	5,502,385	(5.67)
Total Liabilities	<u>5,423,422</u>	<u>5,706,938</u>	(4.97)
Deferred Inflows of Resources	<u>511,648</u>	<u>54,087</u>	845.97
Net Position:			
Net Investment in Capital Assets	(245,279)	(100,515)	144.02
Restricted	189,399	227,982	(16.92)
Unrestricted	(1,424,812)	(894,288)	59.32
Total Net Position	<u>\$ (1,480,692)</u>	<u>\$ (766,821)</u>	93.09

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

Changes in Net Position

The School's total revenues were \$2,013,213 and \$2,123,142 (including the Building Company) for the years ended June 30, 2018 and 2017, respectively. Unrestricted state formula aid accounted for 51.2% of total revenue for the year ended June 30, 2018 (see Figure A-1). Another 47.9% came from program revenue and the remainder from other general revenues.

**Table A-2
Change in Net Position**

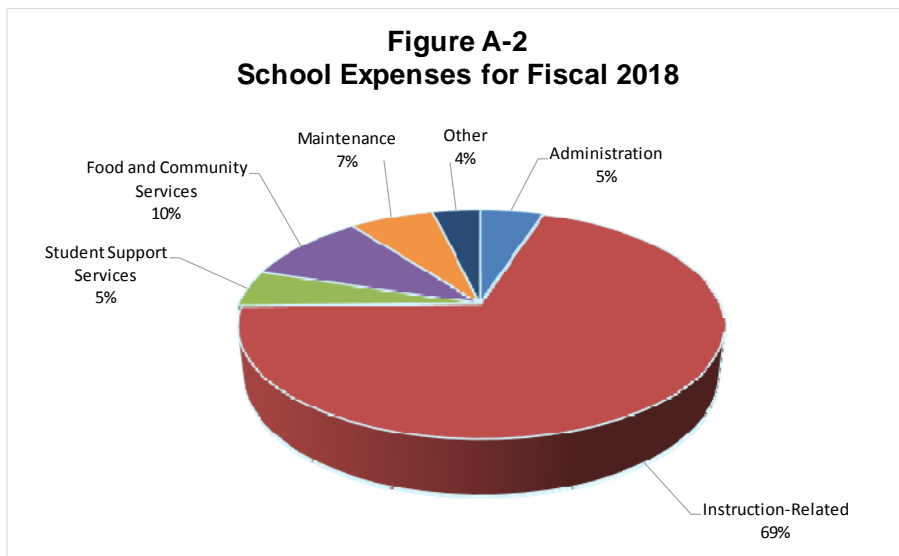
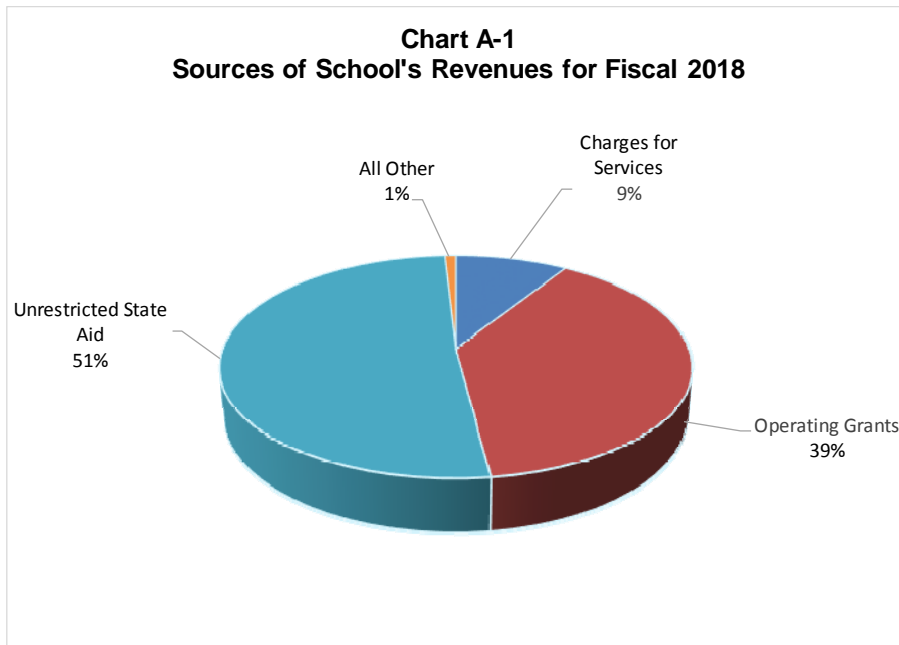
	Governmental Activities for the Fiscal Year Ended June 30,		Percentage Change
	2018	2017	
Revenues			
<u>Program Revenues</u>			
Charges for Services	\$ 181,227	\$ 216,690	(16.37)%
Operating Grants and Contributions	784,030	840,649	(6.74)
<u>General Revenues</u>			
Unrestricted State Aid	1,029,841	1,038,467	(0.83)
Investment Earnings	614	200	207.00
Other	17,501	27,136	(35.51)
Total Revenues	<u>2,013,213</u>	<u>2,123,142</u>	(5.18)
Expenses			
Administration	136,955	130,576	4.89
School Support Services	117,959	113,851	3.61
Regular Instruction	1,151,675	1,075,962	7.04
Special Education Instruction	746,871	702,313	6.34
Instructional Support Services	11,824	3,424	245.33
Pupil Support Services	8,055	8,702	(7.44)
Sites and Buildings	181,576	168,516	7.75
Fiscal and Other Fixed Cost Programs	10,963	10,618	3.25
Food Service	51,352	59,903	(14.27)
Community Service	219,507	228,514	(3.94)
Interest and Fiscal Charges on Long-Term Liabilities	90,347	109,762	(17.69)
Total Expenses	<u>2,727,084</u>	<u>2,612,141</u>	4.40
Change in Net Position	(713,871)	(488,999)	
Beginning Net Position	(766,821)	(277,822)	
Ending Net Position	<u>\$ (1,480,692)</u>	<u>\$ (766,821)</u>	

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

The total cost of all programs and services including interest and fiscal charges was \$2,727,084 and \$2,612,141 for 2018 and 2017, respectively. Total expenses exceeded revenues in fiscal year 2018, decreasing net position to a deficit balance of \$(1,480,692) at June 30, 2018.

The cost of all *governmental activities* this year was \$2,727,084.

- Some of the cost was paid by the users of the School's programs (\$181,227).
- The federal government, restricted state sources, and private grant funds subsidized certain programs with grants and contributions (\$784,030).
- The majority of remaining costs were paid for by unrestricted state aid (\$1,029,841).



**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

**Table A-3
Program Expenses and Net Cost of Services**

	Total Cost of Services		Percentage Change	Net Cost of Services		Percentage Change
	2018	2017		2018	2017	
Administration	\$ 136,955	\$ 130,576	4.89 %	\$ 136,307	\$ 126,389	7.85 %
School Support Services	117,959	113,851	3.61	117,959	113,851	3.61
Regular Instruction	1,151,675	1,075,962	7.04	1,147,364	1,045,580	9.73
Special Education Instruction	746,871	702,313	6.34	196,297	127,405	54.07
Instructional Support Services	11,824	3,424	245.33	11,824	3,424	245.33
Pupil Support Services	8,055	8,702	(7.44)	8,055	8,702	(7.44)
Sites and Buildings	181,576	168,516	7.75	61,130	74,431	(17.87)
Fiscal and Other Fixed Cost Programs	10,963	10,618	3.25	10,963	10,618	3.25
Food Service	51,352	59,903	(14.27)	(2,341)	(4,927)	(52.49)
Community Service	219,507	228,514	(3.94)	74,269	49,329	50.56
Interest and Fiscal Charges on Long-Term Liabilities	90,347	109,762	(17.69)	-	-	N/A
Total	\$ 2,727,084	\$ 2,612,141	4.40	\$ 1,761,827	\$ 1,554,802	13.32

Governmental activities includes not only funds received for the general operation of the School, which are used for classroom instruction, but also includes resources from the entrepreneurial type funds of Food Service and Community Service. Funding for the general operation of the School is controlled by the state and the School does not have the latitude to allocate money received in Food Service or Community Service to enhance classroom instruction resources. The School cannot take funds from these restricted areas and use the funds to hire teachers to enhance instruction.

FINANCIAL ANALYSIS OF THE SCHOOL'S FUNDS

The financial performance of the School as a whole is reflected in its governmental funds as well. At June 30, 2018, the School's governmental funds reported a combined fund balance of \$598,636. This includes the Building Company activity relating to the ownership of the facility that is leased by the School.

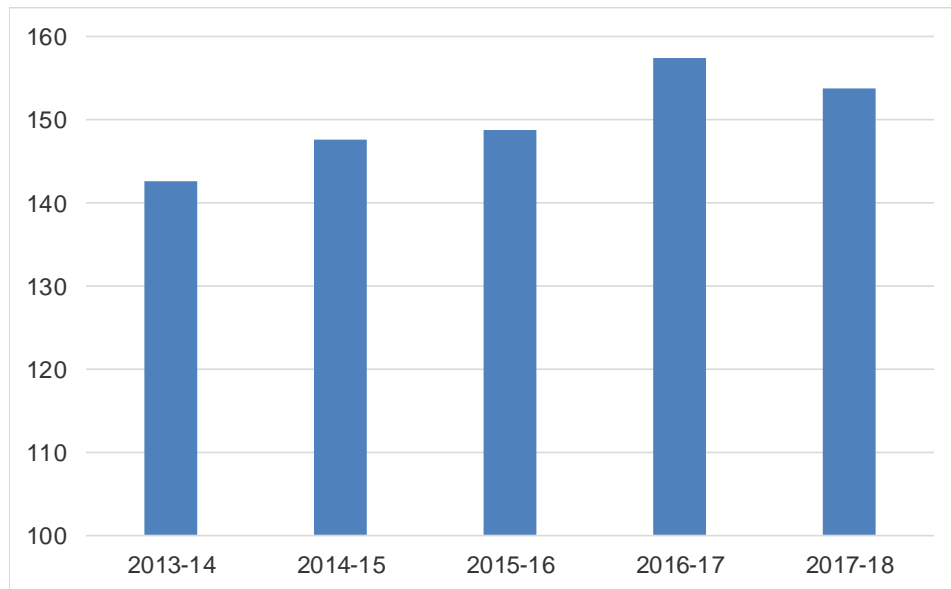
Total revenues and other financing sources for the School's governmental funds (including the Building Company) were \$4,436,403 while total expenditures and other financing uses were \$4,522,470. This resulted in a decrease to the combined fund balance from the prior year of \$86,067.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

ENROLLMENT

Enrollment is a critical factor in determining revenue with the predominant levels of General Fund revenue being determined by enrollment. The following chart shows the number of students over the last five years.

**Table A-4
Five-Year Enrollment Trend
Average Daily Membership (ADM)**



Over the last five years, the School has maintained an average daily membership of between 143 -157 students. It is anticipated the enrollment will remain stable over the next five years. The School has a waiting list of students wishing to attend the School and, therefore, performs lottery drawings annually for available spaces.

GENERAL FUND

The General Fund includes the primary operations of the School in providing educational services to students from kindergarten through grade 6.

Approximately 97% of the General Fund operational revenue is controlled by a complex set of state funding formulas resulting in the local school board having no meaningful authority to determine the level of resources. This includes special education state aid that is based upon a cost reimbursement model providing approximately 95% of the expenditures.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

The following schedule presents a summary of General Fund Revenues.

**Table A-5
General Fund Revenues**

	Year Ended		Change	
	June 30, 2018	June 30, 2017	Increase (Decrease)	Percent Change
Local Sources:				
Earnings on Investments	\$ 403	\$ 124	\$ 279	225.0 %
Other	17,501	27,136	(9,635)	(35.5)
State Sources	1,769,942	1,788,207	(18,265)	(1.0)
Federal Sources	26,035	25,173	862	3.4
Total General Fund Revenue	<u>\$ 1,813,881</u>	<u>\$ 1,840,640</u>	<u>\$ (26,759)</u>	(1.5)

Total General Fund revenue decreased by \$26,759 from the previous year, mainly due to a decrease in the student enrollment and state special education aid which is directly related to costs incurred.

Basic general education revenue is determined by multiple complex state formulas, largely enrollment driven, and consists of a specified minimum amount with variables such as socioeconomic indicators driving additional funding. For Minnesota charter schools the majority of all funding is made up of general education aid, special education aid and charter school lease aid. Other revenue consists of federal and private grant funding that is often expenditure driven.

The following schedule presents a summary of General Fund Expenditures.

**Table A-6
General Fund Expenditures**

	Year Ended		Amount of Increase (Decrease)	Percent Increase (Decrease)
	June 30, 2018	June 30, 2017		
Salaries	\$ 966,909	\$ 986,828	\$ (19,919)	(2.0)%
Employee Benefits	171,946	168,902	3,044	1.80
Purchased Services	664,416	630,699	33,717	5.35
Supplies and Materials	36,319	31,245	5,074	16.24
Capital Expenditures	700	24,934	(24,234)	(97.19)
Other Expenditures	21,075	18,958	2,117	11.17
Total Expenditures	<u>\$ 1,861,365</u>	<u>\$ 1,861,566</u>	<u>\$ (201)</u>	(0.01)

Total General Fund Expenditures decreased \$201 from the previous year due to the net effect of a few larger offsetting variances in Table A-6 above. Salaries decreased \$19,919 or 2% due to staff turnover and a reduction in instructional staffing due to lower enrollment. Purchases services increased \$33,717 or 5.3%, as a result of increased Special Education student's IEP (Individual education plan) related services. Capital expenditures decreased \$24,234 or 972% due to onetime expenses incurred in the prior year for facilities and technology.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

In 2017-18, General Fund expenditures exceeded revenue by \$47,484. Therefore, the total fund balance decreased from \$456,721 at June 30, 2017 to \$409,237 at June 30, 2018. Total fund balance is the single best measure of overall financial health. The fund balance of the General Fund at June 30, 2018 represents 22% of annual expenditures. The School has committed a total of \$166,283 of the fund balance for future replacement of Montessori materials and facility repairs.

The deficit spending of \$47,484 was partially due to a planned reduction of \$20,682 due mostly to less anticipated Special Education aid. The remaining deficit spending of \$26,802 is due to a reduction in donations and state aid of which it is anticipated \$9,467 in Special Education funds expected to be recovered when the legislature reconvenes.

OTHER MAJOR FUNDS

Revenues exceeded the expenditures in the Food Service Fund by \$2,352 increasing the Food Service Fund balance from \$9,195 at June 30, 2017 to \$11,547 at June 30, 2018. This fund balance is required to be either at zero or a positive fund balance.

The fund balance of the Community Service Fund decreased by \$38,230 resulting in a fund balance of \$125,351 at year-end. This was planned deficit spending as the School anticipates continuing to spend down the fund balance over the next few years. The School operates a fee-based preschool program for children ages 3-5 which is accounted for in the Community Service Fund.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Net Investment in Capital Assets

By the end of the fiscal year on June 30, 2018, the School had invested \$3,464,766 in capital assets, primarily relating to the Building Company (see Table A-7). (More detailed information about net investment in capital assets can be found in Note 4 to the financial statements.) Total depreciation expense for the year ended June 30, 2018 was \$174,684.

**Table A-7
Capital Assets**

	2018	2017	Percentage Change
Land	\$ 135,523	\$ 135,523	-
Buildings and Improvements	3,019,219	2,974,487	1.5
Equipment	310,024	310,024	-
Less: Accumulated Depreciation	(1,544,630)	(1,369,946)	12.8
Total District Capital Assets	<u>\$ 1,920,136</u>	<u>\$ 2,050,088</u>	(6.3)

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 MANAGEMENT'S DISCUSSION AND ANALYSIS
 YEAR ENDED JUNE 30, 2018**

Long-Term Liabilities

At year-end, the Building Company owed \$2,165,415 in long-term loans and the School owed \$18,525 in compensated absences payable, as shown in Note 5 to the basic financial statements.

**Table A-8
 The School's Long-Term Liabilities**

	2018	2017	Percentage Change
Pension Benefits Payable	\$ 3,102,607	\$ 3,421,520	(9.3)%
Mortgage Loan Payable	2,165,415	1,230,212	76.0
Construction Loan Payable	-	920,391	(100.0)
Compensated Absences Payable	18,525	16,327	13.5
Total	<u>\$ 5,286,547</u>	<u>\$ 5,588,450</u>	
Long-Term Liabilities:			
Due Within One Year	\$ 96,385	\$ 86,065	
Due in More Than One Year	5,190,162	5,502,385	
Total	<u>\$ 5,286,547</u>	<u>\$ 5,588,450</u>	

General Fund Budgetary Highlights

Following approval of the budget prior to the beginning of the fiscal year, the School revises the annual operating budget in mid-year. These budget amendments typically fall into two categories:

- Implementing budgets for specially funded projects, which include both federal and state grants and reinstating unexpended funds being carried over from the prior fiscal year.
- Legislation passed subsequent to budget adoption, changes necessitated by employment agreements, or change in enrollment, and increases in appropriations for significant unbudgeted costs.

Actual revenues were less than anticipated in state aid by \$16,883 mostly due to special education funding being less than anticipated. Actual expenditures were slightly more than anticipated when compared to the final adopted budget. The School's final budget for the General Fund anticipated that expenditures would exceed revenues by \$20,682; the actual result for the year shows a decrease in fund balance of \$47,484.

FACTORS BEARING ON THE SCHOOL'S FUTURE

The School is dependent on the state of Minnesota for its revenue authority. Recent experience demonstrates that legislated revenue increases have not been sufficient to meet instructional program needs and increased costs due to inflation.

The School will strive to maintain its commitment to academic excellence and educational opportunity for students within a framework of financial fiduciary responsibility.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
MANAGEMENT'S DISCUSSION AND ANALYSIS
YEAR ENDED JUNE 30, 2018**

CONTACTING THE SCHOOL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our constituents, state oversight agencies, lenders, customers, legislative leaders, and creditors with a general overview of the School's finances and to demonstrate the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Office, 500 Maple Street, Monticello, Minnesota 55362, telephone number 763-271-7926.

BASIC FINANCIAL STATEMENTS

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 STATEMENT OF NET POSITION
 JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Governmental Activities	
	2018	2017
ASSETS		
Cash and Investments	\$ 519,450	\$ 524,956
Receivables:		
Other Governments	205,486	271,068
Other	6,609	4,326
Prepaid Items	3,966	2,841
Capital Assets:		
Land and Construction in Progress	135,523	135,523
Other Capital Assets, Net of Depreciation	1,784,613	1,914,565
Total Assets	2,655,647	2,853,279
 DEFERRED OUTFLOWS OF RESOURCES		
Deferred Outflows - Pensions	1,798,731	2,140,925
 LIABILITIES		
Salaries Payable	121,423	107,522
Accounts and Contracts Payable	12,414	10,966
Unearned Revenue	3,038	-
Long-Term Liabilities:		
Net Pension Liability	3,102,607	3,421,520
Other Long-Term Liabilities Due Within One Year	96,385	86,065
Other Long-Term Liabilities Due in More Than One Year	2,087,555	2,080,865
Total Liabilities	5,423,422	5,706,938
 DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Pensions	511,648	54,087
 NET POSITION		
Net Investment in Capital Assets	(245,279)	(100,515)
Restricted for:		
Food Service	11,547	9,195
Community Service	125,351	163,581
Building Company	52,501	55,206
Unrestricted	(1,424,812)	(894,288)
Total Net Position	\$ (1,480,692)	\$ (766,821)

See accompanying Notes to Basic Financial Statements.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)**

Functions	2018			2017		
	Expenses	Program Revenues		Net Revenue (Expense) and Change in Net Position	Net Revenue (Expense) and Change in Net Position	
		Charges for Services	Operating Grants and Contributions		Total	Total
			Governmental Activities	Governmental Activities		Governmental Activities
Governmental Activities						
Administration	\$ 136,955	\$ -	\$ 648	\$ (136,307)	\$ (126,389)	
School Support Services	117,959	-	-	(117,959)	(113,851)	
Regular Instruction	1,151,675	-	4,311	(1,147,364)	(1,045,580)	
Special Education Instruction	746,871	-	550,574	(196,297)	(127,405)	
Instructional Support Services	11,824	-	-	(11,824)	(3,424)	
Pupil Support Services	8,055	-	-	(8,055)	(8,702)	
Sites and Buildings	181,576	-	120,446	(61,130)	(74,431)	
Fiscal and Other Fixed Cost Programs	10,963	-	-	(10,963)	(10,618)	
Food Service	51,352	35,989	17,704	2,341	4,927	
Community Service	219,507	145,238	-	(74,269)	(49,329)	
Interest and Fiscal Charges on Long-Term Liabilities	90,347	-	90,347	-	-	
Total School	<u>\$ 2,727,084</u>	<u>\$ 181,227</u>	<u>\$ 784,030</u>	(1,761,827)	(1,554,802)	
General Revenues						
				1,029,841	1,038,467	
				614	200	
				17,501	27,136	
				<u>1,047,956</u>	<u>1,065,803</u>	
				Change in Net Position	(713,871)	
				(766,821)	(277,822)	
				<u>\$ (1,480,692)</u>	<u>\$ (766,821)</u>	

See accompanying Notes to Basic Financial Statements.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 BALANCE SHEET
 GOVERNMENTAL FUNDS
 JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Building Company	2018	2017
ASSETS						
Cash and Investments	\$ 315,754	\$ 9,523	\$ 124,684	\$ 69,489	\$ 519,450	\$ 524,956
Receivables:						
Due from Minnesota Department of Education	196,022	299	-	-	196,321	269,071
Due from Federal through Minnesota Department of Education	7,492	1,673	-	-	9,165	1,997
Due from Other Funds	16,988	-	-	-	16,988	-
Other Receivables	613	52	5,944	-	6,609	4,326
Prepays	3,966	-	-	-	3,966	2,841
Total Assets	<u>\$ 540,835</u>	<u>\$ 11,547</u>	<u>\$ 130,628</u>	<u>\$ 69,489</u>	<u>\$ 752,499</u>	<u>\$ 803,191</u>
LIABILITIES AND FUND BALANCE						
Liabilities:						
Salaries Payable	\$ 100,742	\$ -	\$ 4,523	\$ -	\$ 105,265	\$ 93,376
Payroll Deductions and Employer Contributions Payable	15,464	-	694	-	16,158	14,146
Accounts and Contracts Payable	12,354	-	60	-	12,414	10,966
Due to Other Funds	-	-	-	16,988	16,988	-
Unearned Revenue	3,038	-	-	-	3,038	-
Total Liabilities	<u>131,598</u>	<u>-</u>	<u>5,277</u>	<u>16,988</u>	<u>153,863</u>	<u>118,488</u>
Fund Balance:						
Nonspendable:						
Prepays	3,966	-	-	-	3,966	2,841
Restricted for:						
Food Service	-	11,547	-	-	11,547	9,195
Community Service	-	-	125,351	-	125,351	163,581
Building Company	-	-	-	52,501	52,501	55,206
Committed for:						
Other Committed	166,283	-	-	-	166,283	168,464
Assigned for:						
Unassigned	238,988	-	-	-	238,988	285,416
Total Fund Balance	<u>409,237</u>	<u>11,547</u>	<u>125,351</u>	<u>52,501</u>	<u>598,636</u>	<u>684,703</u>
Total Liabilities and Fund Balance	<u>\$ 540,835</u>	<u>\$ 11,547</u>	<u>\$ 130,628</u>	<u>\$ 69,489</u>	<u>\$ 752,499</u>	<u>\$ 803,191</u>

See accompanying Notes to Basic Financial Statements.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 RECONCILIATION OF THE BALANCE SHEET – GOVERNMENTAL FUNDS
 TO THE STATEMENT OF NET POSITION
 JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION AS OF JUNE 30, 2017)**

Total Fund Balance for Governmental Funds	\$ 598,636	\$ 684,703
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Total net position reported for governmental activities in the statement of net position is different because:

Capital assets used in governmental funds are not financial resources and, therefore, are not reported in the funds. Those assets consist of:

Land	135,523	135,523
Buildings and Improvements, Net of Accumulated Depreciation	1,660,053	1,767,990
Equipment, Net of Accumulated Depreciation	124,560	146,575

The School's Net Pension Liability and related deferred inflows and outflows are recorded only on the statement of net position. Balances at year-end are:

Net Pension Liability	(3,102,607)	(3,421,520)
Deferred Inflows of Resources - Pensions	(511,648)	(54,087)
Deferred Outflows of Resources - Pensions	1,798,731	2,140,925

Long-term liabilities that pertain to governmental funds, including loans payable, are not due and payable in the current period and, therefore, are not reported as fund liabilities. All liabilities - both current and long term - are reported in the statement of net position. Balances at year-end are:

Mortgage Payable	-	(1,230,212)
Educational Facilities Revenue Note	(2,165,415)	-
Construction Loan Payable	-	(920,391)
Compensated Absences	(18,525)	(16,327)
	<u>(18,525)</u>	<u>(16,327)</u>

Total Net Position of Governmental Activities	<u>\$ (1,480,692)</u>	<u>\$ (766,821)</u>
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**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
GOVERNMENTAL FUNDS
YEAR ENDED JUNE 30, 2018
(WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)**

	Major Funds				Total Governmental Funds	
	General	Food Service	Community Service	Building Company	2018	2017
REVENUES						
Local Sources:						
Earnings and Investments	\$ 403	\$ 11	\$ 569	\$ 51	\$ 1,034	\$ 720
Other	17,501	35,989	144,818	198,380	396,688	441,686
State Sources	1,769,942	2,209	-	-	1,772,151	1,790,053
Federal Sources	26,035	15,495	-	-	41,530	41,106
Total Revenues	<u>1,813,881</u>	<u>53,704</u>	<u>145,387</u>	<u>198,431</u>	<u>2,211,403</u>	<u>2,273,565</u>
EXPENDITURES						
Current:						
Administration	92,647	-	-	-	92,647	90,087
School Support Services	114,506	-	-	-	114,506	111,879
Elementary and Secondary Regular Instruction	705,004	-	-	-	705,004	730,863
Special Education Instruction	636,296	-	-	-	636,296	603,132
Instructional Support Services	11,357	-	-	-	11,357	2,957
Pupil Support Services	7,230	-	-	-	7,230	7,810
Sites and Buildings	282,662	-	-	80,869	363,531	293,964
Fiscal and Other Fixed Cost Programs	10,963	-	-	-	10,963	10,618
Food Service	-	51,352	-	-	51,352	52,730
Community Service	-	-	183,617	-	183,617	191,384
Capital Outlay	700	-	-	44,732	45,432	28,453
Debt Service:						
Principal	-	-	-	72,108	72,108	66,329
Interest and Fiscal Charges	-	-	-	90,347	90,347	109,762
Total Expenditures	<u>1,861,365</u>	<u>51,352</u>	<u>183,617</u>	<u>288,056</u>	<u>2,384,390</u>	<u>2,299,968</u>
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	(47,484)	2,352	(38,230)	(89,625)	(172,987)	(26,403)
OTHER FINANCING SOURCES						
Educational Facilities Revenue Note Proceeds	-	-	-	2,225,000	2,225,000	-
Payment to Refunded Loan Escrow Agent	-	-	-	(2,138,080)	(2,138,080)	-
Total Other Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>	<u>86,920</u>	<u>86,920</u>	<u>-</u>
NET CHANGE IN FUND BALANCE	(47,484)	2,352	(38,230)	(2,705)	(86,067)	(26,403)
FUND BALANCE						
Beginning of Year	456,721	9,195	163,581	55,206	684,703	711,106
End of Year	<u>\$ 409,237</u>	<u>\$ 11,547</u>	<u>\$ 125,351</u>	<u>\$ 52,501</u>	<u>\$ 598,636</u>	<u>\$ 684,703</u>

See accompanying Notes to Basic Financial Statements.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 RECONCILIATION OF THE STATEMENT OF
 REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 GOVERNMENTAL FUNDS TO STATEMENT OF ACTIVITIES
 YEAR ENDED JUNE 30, 2018
 (WITH SUMMARIZED FINANCIAL INFORMATION FOR YEAR ENDED JUNE 30, 2017)**

	2018	2017
Net Change in Fund Balance - Total Governmental Funds	\$ (86,067)	\$ (26,403)
<p>Amounts reported for governmental activities in the statement of activities are different because:</p>		
<p>Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense. The amount by which depreciation exceeded capital outlays in the current period is:</p>		
Capital Outlays	44,732	28,452
Gain (Loss) on Disposal of Capital Assets	-	(270)
Depreciation Expense	(174,684)	(172,896)
<p>Pension expenditures in the governmental funds are measured by current year employer contributions. Pension expenses on the statement of activities are measured by the change in the net pension liability and the related deferred inflows and outflows of resources.</p>		
	(480,842)	(393,574)
<p>In the statement of activities, certain operating expenses - compensated absences - are measured by amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (amounts actually paid).</p>		
	(2,198)	9,363
<p>The governmental funds report long-term loan proceeds as financing sources, while repayment of loan principal is reported as an expenditure. In the statement of net position, however, issuing debt increases long-term liabilities and does not affect the statement of activities and repayment of principal reduces the liability. Interest is recognized as an expenditure in the governmental funds when it is due. The net effect of these differences in the treatment of long-term loans and related items is as follows:</p>		
Educational Facilities Revenue Note Proceeds	(2,225,000)	-
Payment to Refunded Loan Escrow Agent	2,138,080	-
Repayment of Loan Principal	72,108	66,329
Total	\$ (713,871)	\$ (488,999)

See accompanying Notes to Basic Financial Statements.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET TO ACTUAL
 GENERAL FUND
 YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 125	\$ 125	\$ 403	\$ 278
Other	22,122	22,472	17,501	(4,971)
State Sources	1,830,762	1,786,825	1,769,942	(16,883)
Federal Sources	25,262	23,740	26,035	2,295
Total Revenues	<u>1,878,271</u>	<u>1,833,162</u>	<u>1,813,881</u>	<u>(19,281)</u>
EXPENDITURES				
Current:				
Administration	90,438	90,178	92,647	2,469
School Support Services	119,138	117,142	114,506	(2,636)
Elementary and Secondary Regular Instruction	736,824	690,334	705,004	14,670
Special Education Instruction	606,652	643,530	636,296	(7,234)
Instructional Support Services	4,878	7,878	11,357	3,479
Pupil Support Services	10,831	10,855	7,230	(3,625)
Sites and Buildings	282,720	283,095	282,662	(433)
Fiscal and Other Fixed Cost Programs	10,832	10,832	10,963	131
Capital Outlay	3,086	-	700	700
Total Expenditures	<u>1,865,399</u>	<u>1,853,844</u>	<u>1,861,365</u>	<u>7,521</u>
NET CHANGE IN FUND BALANCE	<u>\$ 12,872</u>	<u>\$ (20,682)</u>	<u>(47,484)</u>	<u>\$ (26,802)</u>
FUND BALANCE				
Beginning of Year			<u>456,721</u>	
End of Year			<u>\$ 409,237</u>	

See accompanying Notes to Basic Financial Statements.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET TO ACTUAL
 FOOD SERVICE FUND
 YEAR ENDED JUNE 30, 2018**

	<u>Budgeted Amounts</u>		<u>Actual Amounts</u>	<u>Over (Under) Final Budget</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 5	\$ 5	\$ 11	\$ 6
Other - Primarily Meal Sales	39,165	39,165	35,989	(3,176)
State Sources	1,639	1,639	2,209	570
Federal Sources	14,566	14,566	15,495	929
Total Revenues	<u>55,375</u>	<u>55,375</u>	<u>53,704</u>	<u>(1,671)</u>
EXPENDITURES				
Current:				
Food Service	<u>56,081</u>	<u>52,909</u>	<u>51,352</u>	<u>(1,557)</u>
NET CHANGE IN FUND BALANCE	<u>\$ (706)</u>	<u>\$ 2,466</u>	2,352	<u>\$ (114)</u>
FUND BALANCE				
Beginning of Year			<u>9,195</u>	
End of Year			<u>\$ 11,547</u>	

See accompanying Notes to Basic Financial Statements.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 STATEMENT OF REVENUES, EXPENDITURES, AND CHANGE IN FUND BALANCE
 BUDGET TO ACTUAL
 COMMUNITY SERVICE FUND
 YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts		Actual Amounts	Over (Under) Final Budget
	Original	Final		
REVENUES				
Local Sources:				
Earnings and Investments	\$ 50	\$ 50	\$ 569	\$ 519
Other - Primarily Tuition and Fees	173,970	155,264	144,818	(10,446)
Total Revenues	174,020	155,314	145,387	(9,927)
EXPENDITURES				
Current:				
Community Service	182,544	178,885	183,617	4,732
NET CHANGE IN FUND BALANCE	\$ (8,524)	\$ (23,571)	(38,230)	\$ (14,659)
FUND BALANCE				
Beginning of Year			163,581	
End of Year			\$ 125,351	

See accompanying Notes to Basic Financial Statements.

NOTES TO BASIC FINANCIAL STATEMENTS

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The financial statements of Swan River Montessori Charter School No. 4137 have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard setting body for establishing governmental accounting and financial reporting principles.

B. Financial Reporting Entity

Charter School No. 4137, also known as Swan River Montessori Charter School (the School), is a nonprofit corporation that was formed, and began operating, on July 28, 2004, in accordance with Minnesota Statutes. The School is sponsored by The Audubon Center of the North Woods under an authorizer agreement extending through fiscal year 2021. The governing body consists of a board of directors composed of a Chair, Treasurer, and such other officers as the Board of Education shall determine from time to time.

The School's policy is to include in the financial statements all funds, departments, agencies, boards, commissions, and other component units for which the School is considered to be financially accountable.

Component units are legally separate entities for which the School is financially accountable, or for which the exclusion of the component unit would render the financial statements of the primary government misleading. The criteria used to determine if the primary government is financially accountable for a component unit include whether or not the primary government appoints the voting majority of the potential component unit's governing body, is able to impose its will on the potential component unit, is in a relationship of financial benefit or burden with the potential component unit, or is fiscally depended upon by the potential component unit.

Based on these criteria, there is one organization that is considered to be a component unit of the School. Swan River Charter School Building Company is a Minnesota nonprofit corporation holding Internal Revenue Service classification as a 501(c)(3) tax-exempt organization which owns the real estate and building that is leased by the School for its operations. The Building Company is governed by a separate board appointed by the Board of the School.

Although it is legally separate from the School, the Building Company is reported as if it were part of the School (as a blended component unit) because its sole purpose is to acquire, improve, construct, and own the site that is leased to the School. The building is leased to the Swan River Montessori Charter School under the terms of a long-term agreement. All long-term debt related to the purchase and improvement of the building and property and all capital assets related to the school site that are presented in this financial report are the responsibility of and are under the ownership of the Swan River Charter School Building Company.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Financial Reporting Entity (Continued)

Aside from its sponsorship, The Audubon Center of the North Woods has no authority, control, power, or administrative responsibilities over Swan River Montessori Charter School. Therefore, the School is not considered a component unit of The Audubon Center of the North Woods.

Extracurricular student activities are determined primarily by student participants under the guidance of an adult and are generally conducted outside of school hours. In accordance with Minnesota Statutes, school boards can elect to either control or not control extracurricular activities. The School Board has elected to control extracurricular activities; therefore, the extracurricular student activity accounts are included in the School's basic financial statements as part of the General Fund.

C. Basic Financial Statement Presentation

The School-wide financial statements (i.e. the statement of net position and the statement of activities) display information about the reporting government entity as a whole. These statements include all the financial activities of the School.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The School applies restricted resources first when an expense is incurred for a purpose for which both restricted and unrestricted net position is available. Depreciation expense that can be specifically identified by function is included in the direct expenses of each function. Interest on long-term debt is considered an indirect expense and is reported separately on the statement of activities. Generally, the effect of material interfund activity has been removed from the School-wide financial statements.

Separate Fund financial statements are provided for the governmental funds.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting

The accounting and financial reporting treatment applied is determined by its measurement focus and basis of accounting. The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized when all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this basis of accounting transactions are recorded in the following manner:

1. Revenue Recognition

Revenue is recognized when it becomes measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. State revenue is recognized in the year to which it applies according to Minnesota Statutes and GAAP. Minnesota Statutes include state aid funding formulas for specific fiscal years. Federal revenue is recorded in the year in which the related expenditure is made. Community education tuition and other miscellaneous revenue (except investment earnings) are recorded as revenues when received because they are generally not measurable until then. Investment earnings are recorded when earned because they are measurable and available. A six-month availability period is generally used for other fund revenue.

2. Recording of Expenditures

Expenditures are generally recorded when a liability is incurred. However, expenditures are recorded as prepaid for approved disbursements or liabilities incurred in advance of the year in which the item is to be used. Principal and interest on long-term debt issues are recognized on their due dates.

Unearned revenues are those in which resources are received by the School before it has a legal claim to them, including unearned revenues for the meal fees and daycare program fees that were paid for the subsequent school year.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Measurement Focus and Basis of Accounting (Continued)

Description of Funds

As required by state statute, the School operates as a nonprofit corporation under Minnesota Statutes §317A. However, state law also requires that the School comply with Uniform Financial Accounting and Reporting Standards for Minnesota School Districts (UFARS) which mandates the use of a governmental fund accounting structure. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. A description of the funds included in this report is as follows:

Major Governmental Funds

General Fund

The General Fund is used to account for all financial resources other than those required to be accounted for in another fund. It includes the general operation and pupil transportation activities of the School, as well as capital related activities such as maintenance of facilities and equipment purchases.

Food Service Special Revenue Fund

The Food Service Fund accounts for all the activity related to the food service activity. The revenue sources for this fund are derived primarily from federal and state meal reimbursements in addition to revenue from meal sales.

Community Service Special Revenue Fund

The Community Service fund is used to account for the services provided for the after school tutoring program as well as the fee-based preschool program for children ages 3-5. The main revenue source is derived from student fees.

Building Company Special Revenue Fund

This Special Revenue fund is used to account for the proceeds and uses of resources borrowed for the purpose of purchasing and improving the school site, the receipt of lease payments from the School, as well as the debt service payments required under the terms of the related long-term capital loans. The main revenue source consists of lease payments received from the School.

E. Income Taxes

The School is classified as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (IRC) and comparable sections of the Minnesota income tax statutes.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

F. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

G. Budgeting

Budgets presented in this report for comparison to actual amounts are presented in accordance with GAAP. Each June, the School Board adopts an annual budget for the following fiscal year for the General Fund, and the Food Service and Community Service Special Revenue Funds. A budget is not adopted for the Building Company Fund. Reported budget amounts represent the amended budget as adopted by the School Board. Legal budgetary control is at the fund level.

Procedurally, in establishing the budgetary data reflected in these financial statements, the Administrative Director submits to the School Board prior to July 1, a proposed operating budget for the fiscal year commencing July 1. The operating budget includes proposed expenditures and the means to finance them. The budget is legally enacted by School Board action. Revisions to budgeted amounts must be approved by the School Board.

Total fund expenditures in excess of the budget require approval of the School Board. Spending control is established by the amount of expenditures budgeted for the fund, but management control is exercised at line item levels.

At the end of each fiscal year, if the General Fund has a net unassigned deficit fund balance, calculated in accordance with the Uniform Financial Accounting and Reporting Standards for Minnesota schools which excludes certain restricted balances specified in Minnesota Statutes, exceeding 2.5% of expenditures, a condition referred to as "statutory operating debt" exists. That debt requires retirement through the accumulation of subsequent operating surpluses in accordance with a "special operating plan" approved by the Commissioner of the Department of Education.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgeting (Continued)

Budgeted amounts include mid-year budget amendments that changed revenue and expenditure budgets as follows:

	Original Budget	Amendments	Amended Budget
<u>Revenues</u>			
General Fund	\$ 1,878,271	\$ (45,109)	\$ 1,833,162
Special Revenue Funds:			
Food Service Fund	55,375	-	55,375
Community Service Fund	174,020	(18,706)	155,314
<u>Expenditures</u>			
General Fund	\$ 1,865,399	\$ (11,555)	\$ 1,853,844
Special Revenue Funds:			
Food Service Fund	56,081	(3,172)	52,909
Community Service Fund	182,544	(3,659)	178,885

H. Cash

Cash balances from all funds are combined and invested to the extent available in various securities as authorized by Minnesota Statutes. Earnings from the pooled investments are allocated to the respective funds on the basis of applicable cash balance participation by each fund.

I. Accounts Receivable

Represents amounts receivable from individuals, firms, and corporations for goods and services furnished by the School. No substantial losses are anticipated from present receivable balances, therefore, no allowance for uncollectible accounts is deemed necessary.

J. Prepaid Items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepayments. Prepaid items are reported using the consumption method and recorded as expenditures at the time of consumption.

K. Capital Assets

Capital assets are capitalized at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded at acquisition value. The School maintains a threshold of \$1,500 or more for capitalizing capital assets. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

K. Capital Assets (Continued)

Capital assets are recorded in the School-wide financial statement, but are not reported in the Fund financial statements. Capital assets are depreciated using the straight-line method over their estimated useful lives. Since surplus assets are sold for an immaterial amount when declared as no longer needed for public school purpose by the School, no salvage value is taken into consideration for depreciation purposes. Useful lives vary from 20 years for land improvements and buildings, and 5 to 15 years for equipment.

Capital assets not being depreciated include land.

The School does not possess any material amounts of infrastructure capital assets. Items such as sidewalks and other land improvements are considered to be part of the cost of buildings or other improvable property.

L. Long-Term Obligations

In the School-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities.

M. Pensions

For purposes of measuring the net pension liability, deferred outflows/inflows of resources, and pension expense, information about the fiduciary net position of the Public Employees Retirement Association (PERA) and Teachers Retirement Association (TRA) and additions to/deductions from PERA's and TRA's fiduciary net position have been determined on the same basis as they are reported by PERA and TRA. For this purpose, plan contributions are recognized as of employer payroll paid dates and benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

TRA has a special funding situation created by direct aid contributions made by the state of Minnesota, city of Minneapolis, and Minneapolis School District. This direct aid is a result of the merger of the Minneapolis Teachers Retirement Fund Association merger into TRA in 2006. A second direct aid source is from the state of Minnesota for the merger of the Duluth Teacher's Retirement Fund Association (DTRFA) in 2015. Additional information can be found in Note 6.

N. Fund Balance

In the fund financial statements, governmental funds report nonspendable portions of fund balance related to prepaids, inventories, long-term receivables, and corpus on any permanent fund. Restricted funds are constrained from outside parties (statute, grantors, bond agreements, etc.). Committed fund balances are established and modified by a resolution approved by the Board of Education. Assigned funds are funds that are neither restricted nor committed. Unassigned fund balances are considered the remaining amounts in the general fund.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

N. Fund Balance (Continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the default spending priority per GASB Statement No. 54 is to use restricted, committed, assigned, and then unassigned fund balance on applicable expenditures. The school follows this Statement and utilizes restricted fund balance prior to utilizing unassigned fund balance when the expenditures qualify for the restricted use of the fund balance.

Fund balance of \$166,283 was committed in the General Fund by the School Board for future program materials and equipment, staff development and facility improvements.

O. Risk Management

The School is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; workers' compensation and natural disasters. The School purchases commercial insurance coverage for such risks.

There has been no significant reduction in insurance coverage from the previous year for any of the School's policies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

P. Net Position

Net position represents the difference between assets, deferred outflows, liabilities, and deferred inflows in the School-wide financial statements. Net investment in capital assets consists of capital assets, net of accumulation depreciation, reduced by the outstanding balance of any long-term debt used to build or acquire the capital assets. Net position is reported as restricted in the School-wide financial statement when there are limitations imposed on its use through external restrictions imposed by creditors, grantors, laws, or regulations of other governments.

Q. Comparative Data

The basic financial statements include certain prior-year summarized comparative information in total but not at the level of detail required for a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the School's financial statements for the year ended June 30, 2017, from which summarized information was derived. Prior year numbers may have been adjusted to be more comparable with the current year presentation.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 2 STEWARDSHIP AND ACCOUNTABILITY

Excess of Expenditures Over Budget

Expenditures exceeded budgeted amounts in the following funds at June 30, 2018.

	<u>Budget</u>	<u>Expenditures</u>	<u>Excess</u>
General Fund	\$ 1,853,844	\$ 1,861,365	\$ 7,521
Special Revenue Funds:			
Food Service Fund	\$ 52,909	\$ 51,352	\$ (1,557)
Community Service Fund	178,885	183,617	4,732

The overages were considered by School management to be the result of necessary expenditures critical to operations and were approved by the Board.

NOTE 3 CASH

In accordance with applicable Minnesota Statutes, the School maintains deposits at depository banks authorized by the School's Board.

Custodial Credit Risk – Custodial credit risk is the risk that in the event of a bank failure, the School's deposits may not be returned to it. The School does not have a deposit policy for custodial credit risk and follows Minnesota Statutes for deposits.

Minnesota Statutes require that all deposits be protected by insurance, surety bond, or collateral. The market value of collateral pledged must equal 110% of the deposits not covered by insurance or corporate surety bonds.

Authorized collateral include: U.S. government treasury bills, notes, or bonds; issues of a U.S. government agency; general obligations of a state or local government rated "A" or better; revenue obligations of a state or local government rated "AA" or better; irrevocable standby letter of credit issued by a Federal Home Loan Bank; and time deposits insured by a federal agency. Minnesota Statutes require securities pledged as collateral be held in safekeeping in a restricted account at the Federal Reserve Bank or at an account at a trust departments of a commercial bank or other financial institution not owned or controlled by the financial institution furnishing the collateral.

The bank balance of the School's deposits in banks at June 30, 2018 is \$476,902, and was entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes. The bank balance of the Building Company's deposits in banks at June 30, 2018 is \$71,004, and was entirely covered by federal depository insurance or by surety bonds and collateral in accordance with Minnesota Statutes.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 4 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets, Not Being Depreciated				
Building Company				
Land	\$ 135,523	\$ -	\$ -	\$ 135,523
Capital Assets, Being Depreciated				
Charter School				
Building and Leasehold Improvements	2,974,487	44,732	-	3,019,219
Furniture and Equipment	310,024	-	-	310,024
Total Capital Assets, Being Depreciated	3,284,511	44,732	-	3,329,243
Accumulated Depreciation for:				
Building and Leasehold Improvements	(1,206,497)	(152,669)	-	(1,359,166)
Furniture and Equipment	(163,449)	(22,015)	-	(185,464)
Total Accumulated Depreciation	(1,369,946)	(174,684)	-	(1,544,630)
Total Capital Assets, Being Depreciated, Net	1,914,565	(129,952)	-	1,784,613
Governmental Activities Capital Assets, Net	<u>\$ 2,050,088</u>	<u>\$ (129,952)</u>	<u>\$ -</u>	<u>\$ 1,920,136</u>

Depreciation expense was charged to functions of the School as follows:

Governmental Activities	
Administration	\$ 1,341
Regular Instruction	150,930
Special Education Instruction	3,622
Instructional Support Services	467
Pupil Support Services	215
Sites and Buildings	13,608
Community Service	4,501
Total Depreciation Expense, Governmental Activities	<u>\$ 174,684</u>

NOTE 5 LONG-TERM LIABILITIES

Changes in long-term liabilities are as follows:

	June 30, 2017	Additions	Retirements	June 30, 2018	Principal Due Within One Year
Mortgage Loan Payable	\$ 1,230,212	\$ -	\$ 1,230,212	\$ -	\$ -
Construction Loan Payable	920,391	-	920,391	-	-
Educational Facilities Revenue Note Series 2017A	-	1,000,000	26,780	973,220	34,993
Educational Facilities Revenue Note Series 2017B	-	1,225,000	32,805	1,192,195	42,867
Compensated Absences Payable - Net	16,327	2,198	-	18,525	18,525
Total	<u>\$ 2,166,930</u>	<u>\$ 2,227,198</u>	<u>\$ 2,210,188</u>	<u>\$ 2,183,940</u>	<u>\$ 96,385</u>

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

Mortgage Loan – In 2007, the Swan River Charter School Building Company obtained a \$1,500,000 loan from Beacon Bank to finance the remodeling and equipping of the school facility. This loan was refunded with a new loan from Sherburne State Bank on October 2, 2017, see below.

Construction Loan – In 2014, the Swan River Charter School Building Company obtained a \$967,631 construction loan relating to construction of the new school. This loan was refunded with a new loan from Sherburne State Bank on October 2, 2017, see below.

Sherburne State Bank Series 2017A – On October 2, 2017, the Swan River Charter School Building Company obtained a \$1,000,000 capital improvement loan to finance the remodeling and equipping of the school facility. The proceeds from this loan were used to refund the Construction loan payable described above and provide additional capital for improvements to the building. The interest rate on the loan is 4.95% which will remain the same for the remainder of the loan period. The loan matures on September 20, 2037.

Sherburne State Bank Series 2017B – On October 2, 2017, the Swan River Charter School Building Company obtained a \$1,225,000 capital improvement loan to finance the remodeling and equipping of the school facility. The proceeds from this loan were used to refund the Mortgage loan payable described above and provide additional capital for improvements to the building. The interest rate on the loan is 4.95% which will remain the same for the remainder of the loan period. The loan matures on September 20, 2037. The loan is secured by the property.

As part of the loan agreement with Sherburne State Bank, the School guaranteed the loan and pledged certain revenues to secure the loan payments. Per the loan agreement pledged revenues consist of revenue received by the School from the state of Minnesota for general student funding, state building lease aid payments, state distributions of federal Title I funds, or any other funding sources, after deduction of operating expenditures of the School. Should the Building Company be unable to make the required lease payments the School would be required to make the payments from available funds as described above.

The total pledged revenue reported by the School for the year ended June 30, 2018, amounted to \$1,202,023, of which \$198,380 (or 16.5%) was remitted by the General Fund during the current year as lease payments to the Building Company.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 5 LONG-TERM LIABILITIES (CONTINUED)

Following are maturities of long-term debt for the Swan River Charter School Building Company for each of the next five years and thereafter ending June 30:

<u>Year Ending June 30.</u>	<u>Educational Facilities Revenue</u>		<u>Educational Facilities Revenue</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 34,993	\$ 36,402	\$ 42,867	\$ 44,592
2020	36,251	35,144	44,408	43,051
2021	37,750	33,645	46,244	41,215
2022	39,211	32,185	48,033	39,426
2023	40,728	30,667	49,891	37,568
2024-2028	228,377	128,599	279,762	157,534
2029-2033	276,224	80,752	338,374	98,922
2034-2038	279,686	23,673	342,616	28,999
Total	<u>\$ 973,220</u>	<u>\$ 401,067</u>	<u>\$ 1,192,195</u>	<u>\$ 491,307</u>

NOTE 6 DEFINED BENEFIT PENSION PLANS

Substantially all employees of the Swan River Montessori Charter School are required by state law to belong to pension plans administered by Teachers' Retirement Association (TRA) or Public Employees' Retirement Association (PERA), all of which are administered on a statewide basis. Disclosures relating to these plans follow:

A. Plan Description

The District participates in the following defined benefit pension plans administered by the Public Employees Retirement Association (PERA) and Teachers Retirement Fund (TRA). PERA's and TRA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes. PERA's and TRA's defined benefit pension plans are tax-qualified plans under Section 401(a) of the IRC.

1. General Employees Retirement Plan (GERF)

PERA's defined benefit pension plans are established and administered in accordance with Minnesota Statutes, Chapters 353 and 356. All full-time and certain part-time employees of the School other than teachers are covered by the General Employees Retirement Fund (GERF). GERF members belong to either the Coordinated Plan or the Basic Plan. Coordinated Plan members are covered by Social Security and Basic Plan members are not. The Basic Plan was closed to new members in 1967. All new members must participate in the Coordinated Plan.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

A. Plan Description (Continued)

2. Teachers Retirement Fund (TRA)

TRA administers a Basic Plan (without Social Security coverage) and a Coordinated Plan (with Social Security coverage) in accordance with Minnesota Statutes, Chapters 354 and 356. TRA is a separate statutory entity and administered by a Board of Trustees. The Board consists of four active members, one retired member, and three statutory officials.

Teachers employed in Minnesota's public elementary and secondary schools, charter schools, and certain educational institutions maintained by the state (except those teachers employed by the City of St. Paul and by the University of Minnesota system) are required to be TRA members. State university, community college, and technical college teachers first employed by the Minnesota State College and Universities (MnSCU) may elect TRA coverage within one year of eligible employment. Alternatively, these teachers may elect coverage through the Defined Contribution Retirement Plan (DCR) administered by MnSCU.

B. Benefits Provided

PERA and TRA provide retirement, disability, and death benefits. Benefit provisions are established by state statute and can only be modified by the state legislature.

PERA: Benefit increases are provided to benefit recipients each January. Increases are related to the funding ratio of the plan. Members in plans that are at least 90% funded for two consecutive years are given 2.5% increases. Members in plans that have not exceeded 90% funded, or have fallen below 80%, are given 1% increases.

TRA: Postretirement benefit increases are provided to eligible benefit recipients each January. The TRA increase is 2.0%. After the TRA funded ratio exceeds 90% for two consecutive years, the annual postretirement benefit will increase to 2.5%.

The benefit provisions stated in the following paragraphs of this section are current provisions and apply to active plan participants. Vested, terminated employees who are entitled to benefits but are not receiving them yet are bound by the provisions in effect at the time they last terminated their public service.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

1. GERF Benefits

Benefits are based on a member's highest average salary for any five successive years of allowable service, age, and years of credit at termination of service. Two methods are used to compute benefits for PERA's Coordinated and Basic Plan members. The retiring member receives the higher of a step-rate benefit accrual formula (Method 1) or a level accrual formula (Method 2). Under Method 1, the annuity accrual rate for a Basic Plan member is 2.2% of average salary for each of the first 10 years of service and 2.7% for each remaining year. The annuity accrual rate for a Coordinated Plan member is 1.2% of average salary for each of the first 10 years and 1.7% for each remaining year. Under Method 2, the annuity accrual rate is 2.7% of average salary for Basic Plan members and 1.7% for Coordinated Plan members for each year of service. For members hired prior to July 1, 1989, a full annuity is available when age plus years of service equal 90 and normal retirement age is 65. For members hired on or after July 1, 1989, normal retirement age is the age for unreduced Social Security benefits capped at 66. Disability benefits are available for vested members, and are based upon years of service and average high-five salary.

2. TRA Benefits

TRA provides retirement benefits as well as disability benefits to members, and benefits to survivors upon death of eligible members. Benefits are established by Minnesota Statute and vest after three years of service credit. The defined retirement benefits are based on a member's highest average salary for any five consecutive years of allowable service, age, and a formula multiplier based on years of credit at termination of service.

Two methods are used to compute benefits for TRA's Coordinated and Basic Plan members. Members first employed before July 1, 1989, receive the greater of the Tier I or Tier II benefits as described.

Tier 1 Benefits

Tier 1	Step Rate Formula	Percentage
Basic	First Ten Years of Service	2.2% per Year
	All Years After	2.7% per Year
Coordinated	First Ten Years if Service Years Are Up to July 1, 2006	1.2% per Year
	First Ten Years if Service Years Are July 1, 2006 or After	1.4% per Year
	All Other Years of Service if Service Years Are Up to July 1, 2006	1.7% per Year
	All Other Years of Service if Service Years Are July 1, 2006 or After	1.9% per Year

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

B. Benefits Provided (Continued)

2. TRA Benefits (Continued)

Tier 1 Benefits (Continued)

With these provisions:

- (a) Normal retirement age is 65 with less than 30 years of allowable service and age 62 with 30 or more years of allowable service.
- (b) 3.0% per year early retirement reduction factor for all years under normal retirement age.
- (c) Unreduced benefits for early retirement under a Rule-of-90 (age plus allowable service equals 90 or more).

or

Tier II Benefits

For years of service prior to July 1, 2006, a level formula of 1.7% per year for coordinated members and 2.7% per year for basic members. For years of service July 1, 2006 and after, a level formula of 1.9% per year for Coordinated members and 2.7% for Basic members applies. Beginning July 1, 2015, the early retirement reduction factors are based on rates established under Minnesota Statute. Smaller reductions, more favorable to the member, will be applied to individuals who reach age 62 and have 30 years or more of service credit.

Members first employed after June 30, 1989, receive only the Tier II calculation with a normal retirement age that is their retirement age for full Social Security retirement benefits, but not to exceed age 66.

Six different types of annuities are available to members upon retirement. The No Refund Life Plan is a lifetime annuity that ceases upon the death of the retiree - no survivor annuity is payable. A retiring member may also choose to provide survivor benefits to a designated beneficiary(ies) by selecting one of the five plans that have survivorship features. Vested members may also leave their contributions in the TRA Fund upon termination of service in order to qualify for a deferred annuity at retirement age. Any member terminating service is eligible for a refund of their employee contributions plus interest.

The benefit provisions stated apply to active plan participants. Vested, terminated employees who are entitled to benefits but not yet received them are bound by the plan provisions in effect at the time they last terminated their public service.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

C. Contributions

Minnesota Statutes Chapter 353 sets the rates for employer and employee contributions. Contribution rates can only be modified by the state legislature.

1. GERF Contributions

Basic Plan members and Coordinated Plan members were required to contribute 9.1% and 6.5%, respectively, of their annual covered salary in fiscal year 2018. In fiscal year 2018, the School was required to contribute 11.78% of pay for Basic Plan members and 7.5% for Coordinated Plan members. The School's contributions to the GERF for the plan's fiscal year ended June 30, 2018 were \$32,897. The School's contributions were equal to the required contributions for each year as set by state statute.

2. TRA Contributions

Per Minnesota Statutes, Chapter 354 sets the contribution rates for employees and employers. Rates for the past fiscal year were:

	2018	
	Employee	Employer
Basic	11.0%	11.5%
Coordinated	7.5%	7.5%

The School's contributions to TRA for the plan's fiscal year ended June 30, 2018 were \$51,006. The School's contributions were equal to the required contributions for each year as set by state statute.

D. Pension Costs

1. General Employees Fund Pension Costs

At June 30, 2018, the School reported a liability of \$427,724 for its proportionate share of the GEF's net pension liability. The School's net pension liability reflected a reduction due to the state of Minnesota's contribution of \$6 million to the fund during the General Employees Fund's fiscal year 2017. The state of Minnesota is considered a nonemployer contributing entity and the state's contribution meets the definition of a special funding situation. The state of Minnesota's proportionate share of the net pension liability associated with the School totaled \$5,412. The School's net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions received by PERA during the measurement period for employer payroll paid dates from July 1, 2016 through June 30, 2017, relative to the total employer contributions received from all of PERA's participating employers. As of the June 30, 2017 measurement date, the School's proportion was .0067%, which was an increase of .0004% from its proportion measured as of June 30, 2016.

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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

1. General Employees Fund Pension Costs (Continued)

For the year ended June 30, 2018, the School recognized pension expense of \$64,114 for its proportionate share of GERF's pension expense. It also recognized \$156 as pension expense for the support provided by direct aid.

At June 30, 2018, the School reported its proportionate share of GERFS's deferred outflows of resources and deferred inflows of resources from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 14,096	\$ 27,517
Changes in Actuarial Assumptions	71,011	42,879
Net Difference Between Projected and Actual Earnings on Plan Investments	-	18,498
Changes in Proportion and Differences Between School Contributions and Proportionate Share of Contributions	25,056	8,301
School Contributions Subsequent to the Measurement Date	32,897	-
Total	<u>\$ 143,060</u>	<u>\$ 97,195</u>

A total of \$32,897 reported as deferred outflows of resources related to pensions resulting from School contributions to General Employees Plan's subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to GERF pensions will be recognized in pension expense as follows:

Year Ending June 30.	Pension Expense Amount
2019	\$ 6,397
2020	26,730
2021	(2,002)
2022	(18,157)
2023	-
Thereafter	-

**SWAN RIVER MONTESSORI CHARTER SCHOOL
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NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs

At June 30, 2018, the School reported a liability of \$2,674,883 for its proportionate share of TRA's net pension liability. The net pension liability was measured as of June 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The School's proportion of the net pension liability was based on the School's contributions to TRA in relation to total system contributions including direct aid from the state of Minnesota, city of Minneapolis, and Minneapolis School District. The School's proportionate share was .0134% at the end of the measurement period and .0122% for the beginning of the period.

The pension liability amount reflected a reduction due to direct aid provided to TRA. The amount recognized by the School as its proportionate share of the net pension liability, the direct aid, and total portion of the net pension liability that was associated with the School were as follows:

Description	Amount
School's Proportionate Share of the TRA Net Pension Liability	\$ 2,674,883
State's Proportionate Share of the Net Pension Liability Associated with the School	258,654

For the year ended June 30, 2018, the School recognized pension expense of \$501,479. The School also recognized \$4,959 as pension expense for the support provided by direct aid.

At June 30, 2018, the School reported its proportionate share of the TRA's deferred outflows of resources and deferred inflows of resources, and its contributions subsequent to the measurement date, related to pensions from the following sources:

Description	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences Between Expected and Actual Economic Experience	\$ 20,143	\$ 18,784
Changes in Actuarial Assumptions	1,454,663	374,709
Net Difference Between Projected and Actual Earnings on Plan Investments	-	20,960
Changes in Proportion and Differences Between School Contributions and Proportionate Share of Contributions	129,859	-
School Contributions Subsequent to the Measurement Date	51,006	-
Total	<u>\$ 1,655,671</u>	<u>\$ 414,453</u>

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

D. Pension Costs (Continued)

2. TRA Pension Costs (Continued)

A total of \$51,006 reported as deferred outflows of resources related to pensions resulting from School contributions to TRA subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ending June 30, 2019. Other amounts reported as deferred outflows and inflows of resources related to TRA will be recognized in pension expense as follows:

Year Ending June 30,	Pension Expense Amount
2019	\$ 316,919
2020	361,130
2021	313,127
2022	259,749
2023	(60,713)
Thereafter	-

The School recognized total pension expenses of \$570,708 for all of the pension plans in which it participates. This includes \$4,959 and \$156 in TRA and GERF, respectively, related to direct aid recognized as pension expense.

E. Actuarial Assumptions

The total pension liability in the June 30, 2017, actuarial valuation was determined using the following actuarial assumptions:

Assumptions	General Plan	TRA
Inflation	2.50% per Year	2.50%
Active Member Payroll Growth	3.25% per Year	2.85 - 9.25%
Investment Rate of Return	7.50%	5.12%

Salary increases were based on a service-related table. Mortality rates for active members, retirees, survivors, and disabilitants were based on RP 2014 tables, with slight adjustments to fit PERA's and TRA's experience. Cost of living benefit increases for retirees are assumed to be 1.0% per year for all future years for the General Employees Plan. Cost of living benefit increases for retirees are assumed to be 2.0% per year for all future years for the TRA.

Actuarial assumptions used in the June 30, 2017, valuation were based on the results of actuarial experience studies. The most recent four-year experience study in the General Employees Plan and TRA was completed in 2015.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The following changes in actuarial assumptions for the General Employees Fund occurred in 2017:

- The Combined Service Annuity (CSA) loads were changed from 0.8% for active members and 60.0% for vested and nonvested deferred members. The revised CSA loads are now 0.0% for active member liability, 15.0% for vested deferred member liability, and 3.0% for nonvested deferred member liability.
- The assumed postretirement benefit increase rate was changed from 1.0% per year for all years to 1.0% per year through 2044 and 2.5% per year thereafter.

The following changes in actuarial assumptions for TRA occurred in 2017:

- The cost of living adjustment (COLA) was assumed to increase from 2.0% annually to 2.5% annually on July 1, 2045.
- The COLA was not assumed to increase to 2.5%, but remain at 2.0% for all future years.
- Adjustments were made to the combined service annuity loads. The active load was reduced from 1.4% to 0.0%, the vested inactive load increased from 4.0% to 7.0% and the nonvested inactive load increased from 4.0% to 9.0%.
- The investment return assumption was changed from 8.00% to 7.50%.
- The price inflation assumption was lowered from 2.75% to 2.50%.
- The payroll growth assumption was lowered from 3.50% to 3.00%.
- The general wage growth assumption was lowered from 3.50% to 2.85% for 10 years followed by 3.25% thereafter.
- The salary increase assumption was adjusted to reflect the changes in the general wage growth assumption.

The long-term expected rate of return on pension plan investments is 7.5% for GERF and 5.12% for TRA. The State Board of Investment, which manages the investments of PERA, prepares an analysis of the reasonableness of the long-term expected rate of return on a regular basis using a building-block method in which best estimate ranges of expected future rates of return are developed for each major asset class. These ranges are combined to produce an expected long-term rate of return by weighting the expected future rates of return by the target asset allocation percentages.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

E. Actuarial Assumptions (Continued)

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Domestic Equity	39 %	5.10 %
International Equity	19	5.30
Bonds	20	0.75
Alternative Assets	20	5.90
Cash	2	-
Totals	<u>100 %</u>	

F. Discount Rate

The discount rate used to measure the total pension liability was 7.50% for the General Employee's Fund and 5.12% for TRA. For TRA, this was an increase from the discount rate at the prior measurement date of 4.66%. The projection of cash flows used to determine the discount rate assumed that employee and employer contributions will be made at the rate specified in Minnesota Statutes.

Based on PERA's assumptions, the fiduciary net position of the General Employees Fund was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Based on TRA's assumptions, the pension plan's fiduciary net position was projected to be depleted in 2053 and, as a result, the Municipal Bond Index Rate was used in the determination of the Single Equivalent Interest Rate (SEIR). The long-term expected rate of return (7.50%) was applied to periods before 2053 and the Municipal Bond Index Rate of 3.56% was applied to periods on and after 2053, resulting in a SEIR of 5.1%. There was a change in the Municipal Bond Index Rate from the prior year measurement date (3.01%).

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 6 DEFINED BENEFIT PENSION PLANS (CONTINUED)

G. Pension Liability Sensitivity

The following presents the School's proportionate share of the net pension liability for all plans it participates in, calculated using the discount rate disclosed in the preceding paragraph, as well as what the School's proportionate share of the net pension liability would be if it were calculated using a discount rate one percentage point lower or one percentage point higher than the current discount rate:

Description	1% Decrease	Current Discount Rate	1% Increase
<u>General Employees Plan Discount Rate</u>	6.50%	7.50%	8.50%
School's Proportionate Share of the General Employees Plan Net Pension Liability	\$ 663,431	\$ 427,724	\$ 234,754
<u>TRA Discount Rate</u>	4.12%	5.12%	6.12%
School's Proportionate Share of the TRA Net Pension Liability	\$ 3,530,330	\$ 2,674,883	\$ 1,953,637

H. Pension Plan Fiduciary Net Position

Detailed information about the General Employees Fund fiduciary net position is available in a separately issued PERA financial report that includes financial statements and required supplementary information. That report may be obtained on the Internet at www.mnpera.org.

Detailed information about TRA's fiduciary net position is available in a separately issued TRA financial report. That report can be obtained at www.MinnesotaTRA.org, by writing to TRA at 60 Empire Drive, Suite 400, St. Paul, Minnesota, 55103-4000; or by calling (651) 296-2409 or 1-800-657-3669.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
CHARTER SCHOOL NO. 4137
NOTES TO BASIC FINANCIAL STATEMENTS
JUNE 30, 2018**

NOTE 7 COMMITMENTS AND CONTINGENCIES

A. Federal Grants

Amounts received or receivable from federal and state agencies are subject to agency audit and adjustment. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable fund. The amount, if any, of funds which may be disallowed by the agencies cannot be determined at this time although the School expects such amounts, if any, to be immaterial.

B. Lease Commitments and Terms – Swan River Charter School Building Company – Related Party

On April 7, 2005, the School (lessee) signed a lease for educational space with the Swan River Charter School Building Company (lessor), Monticello, Minnesota, commencing in November 2005. On September 1, 2015, an amended lease agreement was signed effective July 1, 2015. The amended lease expires on June 30, 2022. The annual rent under the new lease is \$198,380, to be paid in monthly installments of \$16,532.

The MDE-approved lease cost for the School for fiscal 2017-18 under the terms of the lease agreements was \$220,380. The School qualified for an estimated \$198,342 in state charter school lease aid for fiscal 2018 based on a statutory cap of \$1,314 per pupil unit served. This entitlement is subject to proration by the Minnesota Department of Education to the extent the overall funding that has been provided is insufficient to meet all amounts owed to Minnesota charter schools.

The School's ability to make payments under these lease agreements is dependent on its revenues which are in turn, largely dependent on sufficient enrollments being served at the School and on sufficient state aids per student being authorized and received from the state of Minnesota. The School believes that its enrollments and aid entitlements will be sufficient to meet the lease obligations as they become due.

C. Lease Commitments and Terms – City of Monticello

On June 22, 2005, the School entered into a lease agreement with the city of Monticello, Minnesota for the use of athletic facilities. Base rent under the agreement is \$22,000 annually, payable in monthly installments of \$1,833, starting September 2005. The School pays an additional \$250 per month to cover maintenance costs. Total annual minimum payments under the lease are \$25,000. The lease agreement contains a provision that specifies that the rental cost is to increase annually in proportion to the change in charter school lease aid should that formula be revised. The term of the lease is for 20 years from September 2005. The lease term may be extended for additional periods of 10 years upon written notice by the School.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 NOTES TO BASIC FINANCIAL STATEMENTS
 JUNE 30, 2018**

NOTE 7 COMMITMENTS AND CONTINGENCIES (CONTINUED)

C. Lease Commitments and Terms – City of Monticello (Continued)

Total future minimum lease payments on these leases are as follows:

<u>Year Ending June 30,</u>	<u>Amount</u>
2019	\$ 223,380
2020	223,380
2021	223,380
2022	223,380
2023	223,380
2024 - 2025	50,000
Total Minimum Lease Payments	<u>\$ 1,166,900</u>

Total building lease expense for fiscal year 2018 for all of the School's leases was \$223,380.

REQUIRED SUPPLEMENTARY INFORMATION

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 TRA SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 LAST FOUR MEASUREMENT PERIODS***

**TRA Schedule of the School's Proportionate Share of the
 Net Pension Liability**

	Measurement Date June 30,			
	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0134%	0.0122%	0.0120%	0.0117%
School's Proportionate Share of the Net Pension Liability	\$ 2,674,883	\$ 2,909,991	\$ 742,319	\$ 539,128
State's Proportionate Share of the Net Pension Liability Associated with School	258,654	291,553	91,242	37,857
Total	<u>\$ 2,933,537</u>	<u>\$ 3,201,544</u>	<u>\$ 833,561</u>	<u>\$ 576,985</u>
School's Covered Payroll	\$ 712,400	\$ 655,760	\$ 614,680	\$ 517,307
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	375.47%	443.76%	120.77%	104.22%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	51.57%	44.88%	76.80%	81.50%

*This schedule presents information for the years available, and will eventually include 10 years of information.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 TRA SCHEDULE OF SCHOOL CONTRIBUTIONS
 LAST FOUR FISCAL YEARS***

**TRA Schedule of School Contributions
 Last Four Fiscal Years**

	Fiscal Year Ended June 30,			
	2018	2017	2016	2015
Statutorily Required Contribution	\$ 51,006	\$ 53,430	\$ 49,182	\$ 46,101
Contributions in Relation to the Statutorily Required Contribution	(51,006)	(53,430)	(49,182)	(46,101)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
School's Covered Payroll	\$ 680,080	\$ 712,400	\$ 655,760	\$ 614,680
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.50%

*This schedule presents information for the years available, and will eventually include 10 years of information.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 GERS SCHEDULE OF THE SCHOOL'S PROPORTIONATE SHARE
 OF THE NET PENSION LIABILITY
 LAST FOUR MEASUREMENT PERIODS***

**GERF Schedule of the School's Proportionate Share of the
 Net Pension Liability**

	Measurement Date June 30,			
	2017	2016	2015	2014
School's Proportion of the Net Pension Liability	0.0067%	0.0063%	0.0066%	0.0061%
School's Proportionate Share of the Net Pension Liability	\$ 427,724	\$ 511,529	\$ 342,046	\$ 286,547
State's Proportionate Share of the Net Pension Liability for State of Minnesota Special Funding Situation Associated with School Total	5,412	6,699	-	-
	<u>\$ 433,136</u>	<u>\$ 518,228</u>	<u>\$ 342,046</u>	<u>\$ 286,547</u>
School's Covered Payroll	\$ 429,253	\$ 389,760	\$ 387,146	\$ 311,173
School's Proportionate Share of the Net Pension Liability as a Percentage of its Covered Payroll	99.64%	131.24%	88.35%	92.09%
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	75.90%	68.90%	78.20%	78.70%

*This schedule presents information for the years available, and will eventually include 10 years of information.

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 GERF SCHEDULE OF SCHOOL CONTRIBUTIONS
 LAST FOUR FISCAL YEARS***

**GERF Schedule of School Contributions
 Last Four Fiscal Years**

	Fiscal Year Ended June 30,			
	2018	2017	2016	2015
Statutorily Required Contribution	\$ 32,897	\$ 32,194	\$ 29,232	\$ 28,552
Contributions in Relation to the Statutorily Required Contribution	(32,897)	(32,194)	(29,232)	(28,552)
Contribution Deficiency (Excess)	\$ -	\$ -	\$ -	\$ -
School's Covered Payroll	\$ 438,627	\$ 429,253	\$ 389,760	\$ 387,146
Contributions as a Percentage of Covered Payroll	7.50%	7.50%	7.50%	7.375%

*This schedule presents information for the years available, and will eventually include 10 years of information.

SUPPLEMENTARY INFORMATION

**SWAN RIVER MONTESSORI CHARTER SCHOOL
 CHARTER SCHOOL NO. 4137
 UNIFORM FINANCIAL ACCOUNTING AND REPORTING STANDARDS
 COMPLIANCE TABLE
 JUNE 30, 2018**

	AUDIT	UFARS	DIFFERENCE
01 GENERAL FUND			
Total Revenue	\$ 1,813,881	\$ 1,813,880	\$ 1
Total Expenditures	1,861,365	1,861,367	(2)
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	3,966	3,966	-
<i>Restricted:</i>			
403 Staff Development	-	-	-
405 Deferred Maintenance	-	-	-
406 Health and Safety	-	-	-
407 Capital Project Levy	-	-	-
408 Cooperative Programs	-	-	-
413 Projects Funded by COP	-	-	-
414 Operating Debt	-	-	-
416 Levy Reduction	-	-	-
417 Taconite Building Maintenance	-	-	-
424 Operating Capital	-	-	-
426 \$25 Taconite	-	-	-
427 Disabled Accessibility	-	-	-
428 Learning and Development	-	-	-
434 Area Learning Center	-	-	-
435 Contracted Alternative Programs	-	-	-
436 State-Approved Alternative Programs	-	-	-
438 Gifted and Talented	-	-	-
440 Teacher Development and Evaluations	-	-	-
441 Basic Skills Programs	-	-	-
445 Career and Technical Programs	-	-	-
448 Achievement and Integration	-	-	-
449 Sage Schools Crime Levy	-	-	-
451 QZAB Payments	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-
453 Unfunded Severance & Retirement Levy	-	-	-
464 Restricted Fund Balance	-	-	-
<i>Committed:</i>			
418 Committed for Separation	-	-	-
461 Committed Fund Balance	166,283	166,283	-
<i>Assigned:</i>			
462 Assigned Fund Balance	-	-	-
<i>Unassigned:</i>			
422 Unassigned Fund Balance	238,988	238,987	1
02 FOOD SERVICE			
Total Revenue	53,704	53,704	-
Total Expenditures	51,352	51,352	-
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	11,547	11,547	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-
04 COMMUNITY SERVICE			
Total Revenue	145,387	145,388	(1)
Total Expenditures	183,617	183,619	(2)
<i>Nonspendable:</i>			
460 Nonspendable Fund Balance	-	-	-
<i>Restricted:</i>			
426 \$25 Taconite	-	-	-
431 Community Education	-	-	-
432 E.C.F.E.	-	-	-
440 Teacher Development and Evaluations	-	-	-
444 School Readiness	-	-	-
447 Adult Basic Education	-	-	-
452 OPEB Liability Not Held in Trust	-	-	-
464 Restricted Fund Balance	125,351	125,351	-
<i>Unassigned:</i>			
463 Unassigned Fund Balance	-	-	-

OTHER REQUIRED REPORTS

**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

Members of the Board of Education
Charter School No. 4137
Swan River Montessori Charter School
Monticello, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Swan River Montessori Charter School, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise Swan River Montessori Charter School's basic financial statements, and have issued our report thereon dated August 31, 2018.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Swan River Montessori Charter School's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Swan River Montessori Charter School's internal control. Accordingly, we do not express an opinion on the effectiveness of Swan River Montessori Charter School's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Members of the Board of Education
Charter School No. 4137
Swan River Montessori Charter School

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Swan River Montessori Charter School's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of Swan River Montessori Charter School's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Swan River Montessori Charter School's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 31, 2018

INDEPENDENT AUDITORS' REPORT ON MINNESOTA LEGAL COMPLIANCE

Members of the Board of Education
Charter School No. 4137
Swan River Montessori Charter School
Monticello, Minnesota

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities and each major fund of Swan River Montessori Charter School as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the School's basic financial statements, and have issued our report thereon dated August 31, 2018.

The *Minnesota Legal Compliance Audit Guide for Charter Schools*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains two categories of compliance to be tested: uniform financial accounting and reporting standards, and charter schools. Our study included the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that Swan River Montessori Charter School failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools*. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding Swan River Montessori Charter School's noncompliance with the above-referenced provisions, insofar as they relate to accounting matters.

The purpose of this report is solely to describe the scope of our testing of compliance relating to the provisions of the *Minnesota Legal Compliance Audit Guide for Charter Schools* and the results of that testing, and not to provide an opinion on compliance. Accordingly, this report is not suitable for any other purpose.



CliftonLarsonAllen LLP

Minneapolis, Minnesota
August 31, 2018